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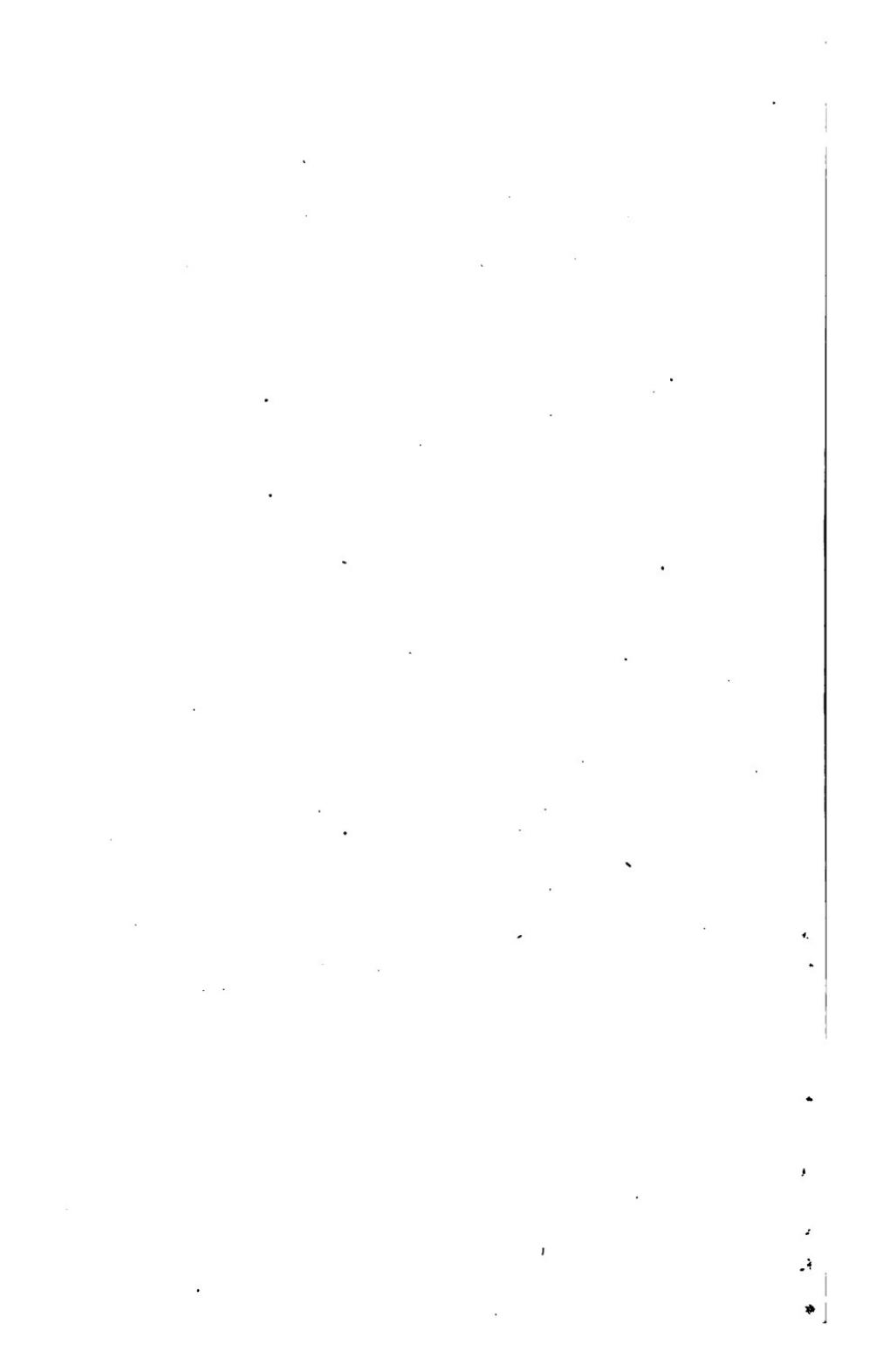
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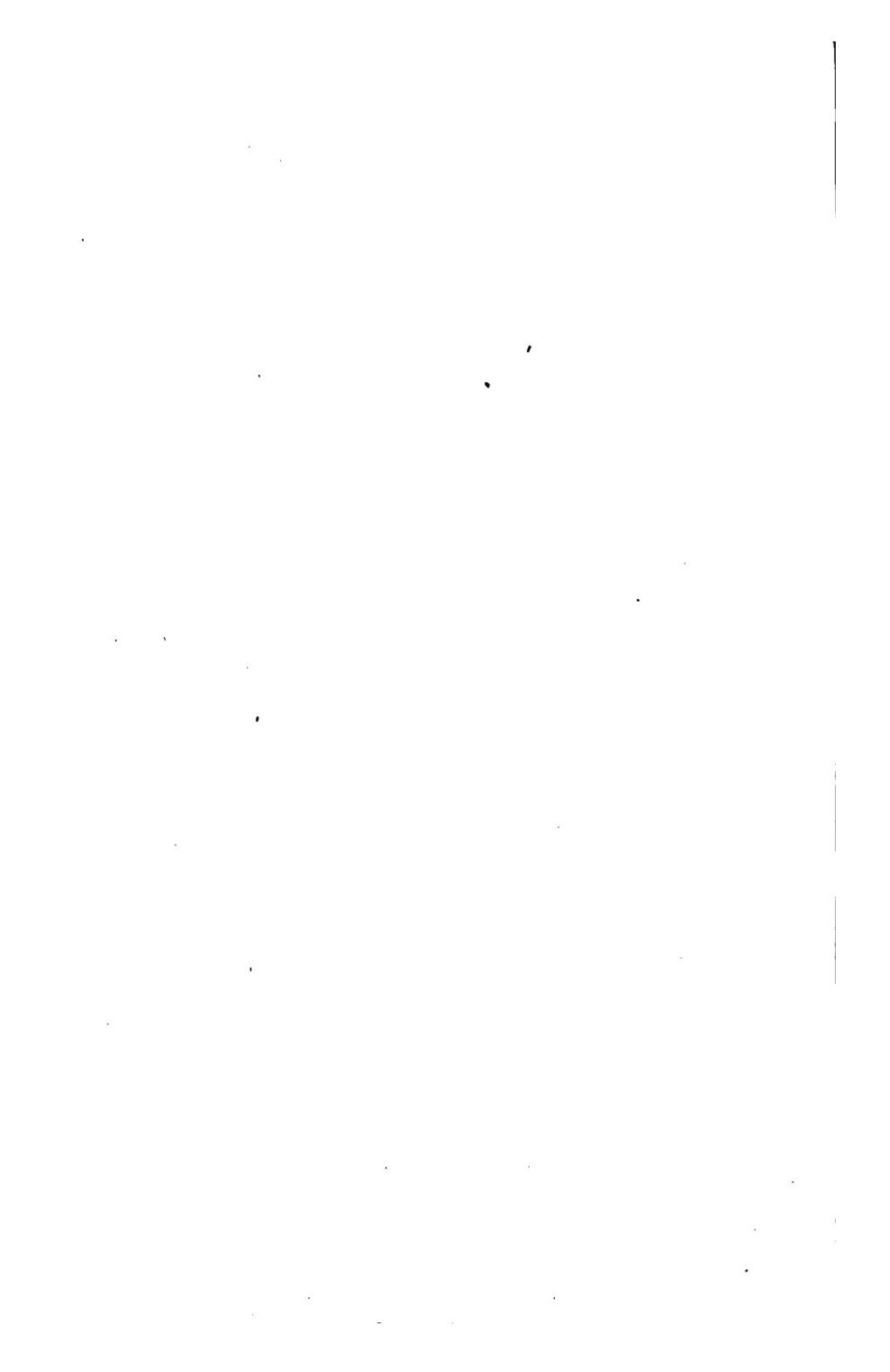
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PREFACE.

We have for many years past privately used the majority of the Questions and Answers now published in the preparation of Gentlemen for their Intermediate Examination, and during that period have received so many applications for them, and requests to publish them, that, a reprint being necessary, we have thought it advisable to do so, and thus complete the Student's Guide to the Intermediate Examination. We have prefixed two former Articles from the Telegram, which we think will be useful to our Readers. We may add that the Questions have been carefully selected from those set at former Examinations, and that we find the surest mode of Bookkeeping is—never to lend them.

MARCH, 1872.



COMMERCIAL BOOKKEEPING.

(*From Telegram, No. 22.*)

(EASTER TERM, 1864.)

We have in a former number (20) furnished our readers with some remarks upon the subject of Costs, and we did so because we regarded it as a very important one to the Profession at large, and one requiring the special attention of the young practitioner. Connected with it in a very intimate manner, there is another subject, of which a sound and accurate knowledge ought to be as necessary for the professional man as it is for the man of business, viz., Bookkeeping, or the art of keeping accounts. We are afraid that, as a rule, this is the weak point of the profession. How many of the members have any competent knowledge of accounts? Certainly, we should say, a very small minority. The books are commonly left exclusively to some one member of the firm, or some clerk, and, what is worse, no regular system of accounts is kept. In some few cases, we believe, the banker's book alone is relied upon to shew the receipts and payments, thereby preventing any accurate knowledge of the profits of the business ever being ascertained. We are therefore glad to see that attention has been called to this defect in the business habits of the profession, and Bookkeeping introduced as one of the subjects of the intermediate examination of articled clerks. The least sanguine, therefore, may entertain a confident hope that a rapid improve-

ment in the art of bookkeeping will be secured to the profession.

The subject for the present year's intermediate examination is commercial bookkeeping by single entry. Whether the examiners imagine that the student, having mastered the mysteries of commercial bookkeeping, will proceed to apply its principles to his professional accounts, we cannot say; but as the object is to enable professional men to keep their own accounts with care and accuracy, as well as those of their clients, we certainly are of opinion that it would have been better to have chosen solicitors' bookkeeping as the subject of examination. The principles doubtless are the same, but the details differ, and teaching the knowledge of the one is certainly not the most direct way to secure the practice of the other. It is our present intention, therefore, to offer a few remarks on the subject of commercial bookkeeping by single entry for the benefit of articled clerks generally, and especially of the young articled clerk who has yet to pass his intermediate examination.

In a future number we hope to consider the subject of solicitors' bookkeeping, and to point out the difference between it and commercial bookkeeping, so as to enable the young solicitor to reduce his knowledge of the subject acquired as an articled clerk into practice in his own office.

With regard to commercial bookkeeping there are a variety of systems in vogue, each differing but slightly from the other in the number of books employed and in the mode of posting them. Our present remarks are chiefly drawn from a complete little work published by Messrs. Chambers, as part of their educational course. It combines single and double entry,—the price is very moderate, 1*s.* 6*d.*; or the single entry part may be had separate, price 1*s.* Complete sets of ruled forms bound in books, price 1*s.* 3*d.* each, may also be had for either system. The possession

of them will enable the student to obtain a practical knowledge of the art. In this work the same books are used for single as well as double entry (the journal which is customary in the latter system being dispensed with), the difference consisting alone in the mode of posting the entries. In single entry each entry in the other books is posted but once in the ledger, whereas in double entry it is posted twice, *i. e.*, to different accounts in the ledger to the credit of one and to the debit of the other, so that if the accounts are correctly kept the total of the balances of the debtor accounts will exactly equal the total of the balances of the creditor ones. The system of double entry, in addition to thus testing the accuracy of the posting, also shews the amount of goods bought and sold during the year, or any given period, and the profit and loss on the various departments of the business. For these reasons it is chiefly used by large merchants or persons in a large way of business, and who dispose of goods in large quantities at a time; whilst single entry, from its occupying less time in the posting, is chiefly used by professional men and by tradesmen in a small way of business.

The following are the principal books used in book-keeping:—

Day book, for goods sold on credit.

Invoice book for goods bought on credit.

Cash book, for cash received and paid, and discount received and allowed.

Bill book, for bills receivable and payable.

Ledger, to contain an abstract of the other books.

Stock book, to contain an inventory of the stock in hand at the time of balancing the books.

The following are the subsidiary books:—

Account book, containing a list of accounts owing to and by the merchant.

Warehouse book, containing an account of the quantity of goods received, sent out, and on hand.

Memorandum book, containing temporary memoranda.

Letter book, for copies of all letters written.

The day book and invoice book are sometimes combined in one, goods sold on credit being entered at one end of it to the debit of the person to whom they are sold; and goods bought on credit on the other, to the credit of the person from whom they have been received. In the cash book all receipts are put on the debit or left hand side, all payments on the credit or right hand side.

The entries made in the first four books have now to be arranged in the order of their dates under the names of the persons to whom they belong, and this is done in the ledger, and is termed posting. A page, or portion of a page, is assigned to each person's account, each page being ruled with Dr. and Cr. columns, the Dr. on the left hand side and Cr. on the right.

The entries of goods sold taken from the day book are entered on the Dr. side of the account, as also are the entries of the cash payments or bills payable taken from the cash book and bill book. Goods bought on credit, the entries of which are taken from the invoice book, are entered on the Cr. side of the accounts, as also are the cash receipts and bills receivable. It will thus be seen that entries on the Cr. side of the cash book are entered on the opposite or Dr. side in the ledger, and entries on the Dr. side of the cash book on the Cr. in the ledger. The difference between the two sides of the account is called the balance, and shews the amount owing by or to you to or from the person whose account it is. The balance is said to *fall* on that side of the account which is the larger, to equalize the two sides, the amount is therefore *entered* on the contrary or smaller side, under the head "To or by balance," and this amount

is carried forward to the next account, and the old one is ruled off, the diagonal line being added to the shorter side to prevent any fresh entries after the account has been balanced.

A merchant's property or assets consist of his stock in trade, debts, bills and cash at the bank and in hand, whilst his liabilities consist of debts and bills. His assets, less his liabilities, will constitute his capital for the time being. A balance sheet is made out, by entering on the Dr. side of it, the liabilities, viz., accounts owing, being the amount of Cr. balances in the ledger, and the bills payable at the time. The entries on the Cr. side of the account will be the value of the stock in trade, and furniture taken from the stock book, book debts, being the amount of Dr. balances in the ledger, bills receivable, and cash in hand and at bankers. The balance of the account will be the nett capital at the time.

The nett profit and loss for a certain time is ascertained by putting the nett capital as ascertained from the last preceding balance sheet, and then adding 5*l.* per cent for interest. On the other side put the capital at the present time and the amount of cash withdrawn for private expenses. The difference between the two sides will shew the nett profit and loss for the given period. To ascertain the gross profit and loss add to this the amount of trade expenses and bad debts, an account of which is kept in the ledger.

We have thus in a few words endeavoured to give our readers an outline of the Art of Bookkeeping by single entry. The theory is soon learned—the knowledge of the subject lies in a small compass; but the utility of the art lies in its application. A constant application of it to all professional pecuniary transactions will enable a man at any time to test his solvency—to know the balance in his favour, and to compute his gains. These are advantages which enable the

man of business, from the commencement of his career, to walk onwards with a firm and steady step. The art, well applied, is not a hindrance to, but aids legitimate speculation ; and many a man, by being able through his well kept accounts to know his pecuniary position, has been kept from embarking in a course of speculation too great for his capital. Little means often effect great ends ; but it is by a gradual process—by little and by little ; and the record of that progress lies in the well-kept Ledgers. Professional men ought to be on a par in this respect with commercial men, and nothing will tend so much to secure to the Lawyer the advantages which good Bookkeeping gives to the merchant, as the new system of examination of Articled Clerks in the useful Art of Bookkeeping.

We close our present remarks on this subject by congratulating the incipient members of the Profession on the new subject of study imposed upon them.

SOLICITORS' BOOKKEEPING.

(*From Telegram, No. 25.*)

(HILARY TERM, 1865.)

In a former number of the *Telegram* (22) we furnished our readers with some remarks on the subject of Commercial Bookkeeping by single entry, that being one of the subjects for the Intermediate Examination of Articled Clerks, and we then promised in a future number to consider the subject of Solicitors' Bookkeeping. This being a subject of greater importance to every member of the legal profession, yet one of which far too many solicitors are practically ignorant, we now therefore venture to offer some few remarks upon it in the hopes that in this particular the rising generation of solicitors may excel their predecessors in office.

There are several systems of solicitors' bookkeeping in actual use. But in a large business, where moneys of clients to an uncertain amount remain constantly in the hands of the solicitor, and where it is of the greatest consequence to him to know daily his position with regard to his clients, we are of opinion that Mr. Kain's system of Bookkeeping is the best. The Cash Journal is the distinguishing feature in it, and although, at first sight, it may seem rather complicated, being framed on the principle of double entry, yet a little study and reflection, combined with actual practice

of the system, will soon render it clear to an ordinary student. By its means any solicitor can at any moment balance his own accounts, and shew his position with himself, his business and his clients, *i. e.* his cash, profits, and book debts, so far as the costs are made out or the agent's bills sent in. It must not, however, be overlooked that in this system bills delivered are treated as cash in the profit and loss account. We will now proceed to mention the various books necessary, following to a great extent Mr. Kain's complete system, a careful perusal of whose useful work on the subject will, we are sure, well repay the student. In considering what books are necessary for solicitors' book-keeping, the natural division of the subject into two parts should not be overlooked, the one relating to the bills of costs and the other to the cash accounts. We will first consider what books are necessary for the former, premising that although the practice in different offices may vary as to the number and form of the books employed, yet the object of all is the same, viz., to preserve an accurate account of every transaction connected with the business of the office, and these books will be found equally necessary whether the business be a sole or partnership concern. In connection with the bills of costs, the necessary books are:

1. The clerk's Day Book, or, as it is more ordinarily styled, the Call Book.
 2. The principal's Day Book.
 3. The Bill Book, or as it is sometimes called the Bills of Costs Book.
1. In the clerk's Day Book or Call Book, should be entered the names of all persons from whom letters are received in the course of day, and this may be conveniently done on the left hand side of the page.

The names of all persons calling on business, with time of calling, nature of business, and name of partner or clerk

who attended them ; enter these on the inside of the marginal line.

All drawing, copying or engrossing done by the clerks in the outer office who have no separate Day Book, with length of work and cost of stamps, &c.

Attendances, journeys, &c., by such clerks, with particulars of expenses, if any.

Names of all persons to whom letters or parcels are sent in the course of day, with amount of postage and initials of clerk posting same, and these may be conveniently entered on the right of the page.

The entries in this book should be made before the clerks leave the office for the day, and in some offices each clerk is required to enter in it the time of his arrival at the office.

2. The principal's Day Book.—In a small business one is sufficient, but in a large one it is more convenient for each principal and managing clerk to keep a separate one. In it should be entered every night before leaving the office all charges for business transacted during the day by the principal or clerk, with the addition of such of the expenses in the Cash Book or the Subsidiary Petty Cash Book as are chargeable to the clients in their bills of costs.

3. The Bill Book or Draft Bills of Costs Book.—In this book it should be the duty of a copying clerk every morning to enter the various charges contained in the principal's and clerk's Day Book to the separate account of each client, to whom one, two, or more pages are devoted consecutively according to the probable extent of the business. As each item is entered it is crossed through with the pen, and the page of entry in the Bill Book inserted in the margin ; when the allotted pages are full a fresh account is commenced, the reference to which should be accurately noted on the last page of the old one, and *vice versa*. A careful index must be kept of both the old and new accounts.

The items in the Bill Book should not be entered too closely, as in their present state they form the draft bill of costs, which on the completion of the business must be revised and settled by the principal before being copied for delivery.

With respect to agency charges, which as a rule are only delivered half yearly, the practice seems becoming common of copying them at the end of the country solicitor's bill. The country charges are first inserted in the agency bill, if not already done, and the bill is settled and paged, each business being added up separately, and proper reference is then made to it at the end of the costs in the Bill Book; this course saves the necessity of copying it therein. It will also be found advisable on the completion of any business to obtain at once the agency charges in connection with it, as the draft bill of costs may then be completed and settled forthwith.

We now come to the books necessary for the cash accounts. These are:

1. The Cash Book, in Mr. Kain's system called the Cash Journal, with its subsidiary the Petty Cash Book, in Mr. Kain's system called the Expenses Book.
2. The Ledger, with its subsidiary the Private Ledger, chiefly used in partnership cases, containing the accounts of the principals.
 1. The Cash Book.—We will first consider the ordinary one apart from Mr. Kain's system. In it should be entered all receipts and payments in connection with the business or the clients. It will be found advisable to have it ruled in double columns.

In the first column should be entered receipts connected with the business which have not to be accounted for by the principal.

In the second, all sums received on account of clients and other persons, and which have to be accounted for.

In the first column *contra*, should be entered all business payments on account of salaries, office and other items inserted in the bills of costs.

In the second, all payments to or for clients or others which have to be repaid on a settlement of accounts.

The Petty Cash Book.—The use made of this subsidiary to the Cash Book varies considerably. In some offices it is used to relieve the Cash Book of small payments made by the cashier, who then pays all sums under a certain amount, say £5, in cash; all other payments being made by the principal by cheque. Cheques given on account of the Petty Cash Book are entered by the clerk on the debit side of the Petty Cash, and by the principal in the Cash Book as payments on the office account. The Petty Cash Book, like the Cash Book, should contain double columns, distinguishing those items which are paid on the personal account of clients (and which, like similar items in the Cash Book, must be entered in the Ledger) from those contained in the bills of costs or made on account of the office.

Another practice with regard to the Petty Cash Book is to re-enter all the payments in it into the Cash Book: in this case the cheques given on account of it need not be entered in the Cash Book.

With respect to the banker's account, by some these items are entered in the Cash Book, and the separate account in the Ledger will then disclose a duplicate of the banker's book. Others keep this account in separate columns in the Cash Book, some again keep a duplicate Bank Book, whilst others trust for their knowledge of it to the Banker's Book itself, merely carefully comparing it every week with the stumps of their cheque book and paying-in book. We prefer the separate columns in the cash book when the business is extensive; and Mr. Kain's Cash Journal can be had either with them or without, as may be desired. We

think it certainly desirable that one partner only should draw cheques, whose duty it should be to keep a constant eye on the banker's account and see that it is not overdrawn, or to provide for that contingency when necessary.

We will now consider Mr. Kain's system of a Cash Journal. The ordinary Cash Book shews cash received and cash paid. This journal, in addition, shews credit received and credit given, without interfering with the cash columns. These four classes of transactions must be entered in the Cash Journal as they arise, and are to be balanced at the moment of entry by repeating the amount in its proper column on the contra side of the triple line in the centre. There are six columns in the journal, divided into pairs, we have numbered them for the sake of reference, the two outer ones, Nos. 1 and 6 being for amounts debited to clients and amounts credited to clients respectively. The two next, Nos. 2 and 5, are for office expenses and office receipts respectively, whilst the centre pair of columns Nos. 3 and 4 are for cash receipts and payments respectively, whether on account of the office or clients. The columns stand thus:—

1. <i>Ledger Accounts</i> Amounts debited to Clients.	2. <i>Office Expenses.</i>	3. <i>Cash Received.</i>	4. <i>Cash Paid.</i>	5. <i>Office Costs, &c.</i>	6. <i>Ledger Accounts.</i> Amounts credited to Clients.
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On consideration it will be seen that any entry made in the columns on one side can be repeated on the other, as there can be no receiver without a payer nor a creditor without a debtor. The advantages of the system are that the balancing is immediate, and it can at once be seen what is the *cash balance*, the *profits* (as far as the bills of costs have been sent in and the agency accounts delivered), and the balance due on the *ledger accounts*. The Cash Journal also affords a proof of the accuracy of the accounts, as the

total debits of the columns on one side of the triple line must equal the total credits of the columns on the other.

To ascertain the results of this system it will be observed that in order to ascertain the amount due to you on a balance of account with your clients the total of column No. 6 has only to be deducted from No. 1 column.

To ascertain the profits of the business deduct the total of No. 2 column from No. 5.

To ascertain the balance of cash deduct No. 4 from No. 3.

Each client's individual account will, as in other systems, be disclosed by the Ledger.

It has been before remarked that additional columns for the banking account can be had if required.

The columns of the Cash Journal should be cast up and closed monthly, so that the principal may see, as before explained, his position with the *world*, his *profession* and *himself*.

The Ledger.—In this, the most important of the books of account, should be entered to the separate account of each client in the office the entries in the Cash Book, Petty Cash Book and Bill Book. In Mr. Kain's system, only entries contained in the two outer columns of the Cash Journal need entering in it, and where in other systems the Petty Cash Book is copied into the Cash Book, the items are entered from the latter only. In Ledger accounts all receipts are entered on the right hand or creditor side, and payments on the left hand or debtor side, just the reverse of those in the Cash Book, and the page of its entry in the Ledger should be inserted against each item in the Cash Book or Bill Book and *vice versa*. Entries in the Ledger should be posted up as soon as possible, so as to facilitate a settlement with a client at any moment. The Ledger should also contain an account with the office, in which all items

chargeable to the office, not included in the clients' bill of costs, should be entered, in order that a careful eye may be kept over this branch of the expenditure.

The Ledger accounts should be properly balanced half-yearly or yearly. A trial balance to test the correctness of the entries should first be prepared. In Mr. Kain's system this is done by inserting on one side the total of the amounts debited to each account, and on the other the total of the amounts credited; these will, if correct, equal the totals of their source, namely, the two outer columns in the Cash Journal. The balances may then be inserted, and the trial balance sheet copied into the private Ledger, when one is used. Each account should then be closed in the Ledger the balances brought down, and a list of debtors and creditors made out.

The following books will also be found necessary to enable a Solicitor to carry on his business:

A Diary, a Letter Book, Cash Memorandum Book, and Index to deeds and papers.

We have endeavoured to set forth above a few of the most important points connected with Solicitors' Bookkeeping, especially Mr. Kain's excellent system. We are sorry our space forbids more than a brief outline. We hope, however, that our readers will refer to original works on the subject, and thus supply any deficiencies in our short description of this, to them, most important subject.

BOOKKEEPING.

Q. What is Bookkeeping, and the objects to be obtained by it ?

A. Bookkeeping is the art of recording and classifying a merchant's or tradesman's daily transactions, and of keeping an account of his property and debts, so that he may at any time be able to discover his annual profit or loss, solvency or insolvency.

Q. What ought a merchant's books to exhibit ?

A. The whole amount of his property, with the particulars of what it is composed, and also the amount of his debts. They should also shew the particulars of his transactions with each person with whom he does business.

Q. What is the duty of a merchant with reference to bookkeeping, and what is likely to result from a neglect of that duty ?

A. It is his duty to keep an accurate account of all his transactions, and his ledger properly posted and entered up. His books should shew clearly the whole amount of his property, with the particulars of which it is composed, and also the amount of his debts. A proper balance sheet and profit and loss account should be prepared at the end of every year or six months. If these precautions be neglected bankruptcy will probably result.

Q. What does the capital or property of persons in business consist of ?

A. 1. Stock in trade, including goods, warehouses, machinery, shops, or whatever species of stock is employed in the business.

2. Accounts or debts owing to the merchant.
3. Bills.
4. Cash.

Q. What is meant by a merchant's liabilities and assets?

A. A merchant's liabilities are the engagements by which he is indebted to his creditors : his assets are his property of every description available to meet those liabilities.

Q. What is an account?

A. An account is a statement shewing the amount due by one person to another for goods, cash, &c. Accounts are kept under their several titles in the Ledger, from which they are copied when required.

Q. What names are assigned respectively to the right and left hand sides of an account, and what words respectively follow the words Dr. and Cr.?

A. The left hand side is called the Dr. and the right hand the Cr. The word "To" follows Dr., and the word "By," Cr.

Q. What is meant by the balance of an account?

A. It means the difference between the Debtor and Creditor side of it.

Q. How is an account balanced?

A. When there are entries on both sides of an account only, that containing the greatest amount is added in ink ; the other side is added in pencil, and then deducted in the same temporary way from the other side, to shew the balance, which, after being carried forward to the next account, is inserted in ink on the lesser side of the account, which is then ruled off.

Q. What is the difference between personal and impersonal accounts?

A. In double entry accounts are kept in the Ledger not only for individuals, but also for the various branches of a merchant's property. For instance, under the head of "Printing Machinery," the account would shew on the Dr. side the cash paid for it, and on the Cr. a yearly allowance for wear and tear thereof, the balance being carried to the fresh account; and this allowance for wear and tear would be entered on the Dr. side of the Printing Office Account, as also would interest on the value of the machinery.

Q. What is meant by "the balance falls on the Dr. side," and "I must bring down the balance on the Cr. side."

A. The term balance had its origin from the original practice of weighing money (see Gen. xxiii. 15). If the amount on the Dr. side is greater than that on the Cr., the balance must fall on the Dr. side. In order to bring down the balance on the Cr. side, I must add some items to the right hand side in order to equalize the balance.

Q. What is Bookkeeping by single entry, and by whom is it chiefly used?

A. In single entry, each entry in the Day Book, Invoice Book, Cash Book and Bill Book is posted or entered *once* to some account in the Ledger; it is chiefly used by small traders and professional men, as it is more simple and occupies less time in posting than double entry, in which each item is posted to two separate accounts in the Ledger (to the debit of one and the credit of the other, so that the debits and credits of all the accounts taken together always balance), and this mode is chiefly used by merchants and persons in a large way of business.

Q. What are the principal books used in Single Entry?

A. The Day Book, Invoice Book, Cash Book, Bill Book, Ledger, and Stock Book.

Q. What are the subsidiary books ?

A. The Account Book, containing a list of accounts owing to or by the merchant.

Warehouse Book, containing an account of the quantities of goods received, sent out, and in hand.

Stock Book, containing an inventory of goods in hand at the time of balancing the books.

Memorandum Book, containing temporary memorandums, and

Letter Book, for copies of letters.

Q. What would be the simplest form of Bookkeeping for a farmer or other person carrying on ready money business ?

A. By single entry ; with a Cash Book, Ledger, and Stock Book.

Q. What are the books requisite for a business where goods are sold on credit ?

A. A Day Book and Bill Book for bills receivable, with the usual subsidiary books, would be requisite in addition to those stated in the last answer.

Q. Describe the use of a Waste Book.

A. A Waste Book is a book used in double entry, containing an entry of all the transactions relating to the business as they occur, and now generally subdivided into various books, such as the Day Book, Bill Book, Invoice Book, Sales Book, Warehouse Book, Stock Book, Cash Book, Adventure Book, &c.

Q. What is a Bill of Parcels ?

A. It is a list or account of goods that have been sold and sent by a tradesman to the retail buyer. It is nearly the same as an invoice.

Q. What is the use of the Day Book ?

A. The purpose of the Day Book is to keep a daily account of all goods *sold on credit*, that is, goods that are

not paid for at the time of being sold. Before sending away the goods, the merchant enters in the Day Book the names and addresses of the persons to whom they are sold, with a description of the goods and their prices, also any other charges relating to them. The particulars of entries are filled into the inner money columns, the sums total into the outer columns.

Q. If you, on the 1st of January, 1872, sell to James Brown, Leicester, 100 yards of flannel at 1s. 9d. per yard, and 55 yards of black cloth at 5s. per yard, and wish to charge 5s. for wrapper and packing, and also 5 per cent. commission, how would this entry appear in your Day Book?

1 January, 1872.

			Particulars.	Sums Total.
		Dr.	£ s. d.	£ s. d.
1	<i>James Brown, Leicester</i>	@ 1/9	8 15 0	
	To 100 yards Flannel			
	" 55 yards Black Cloth	5/	13 15 0	
	Wrapper and Packing		0 5 0	
	Commission		1 2 0	
				23 17 0

Q. What is an Invoice?

A. A list or account of goods that have been sold wholesale or sent on a certain day by one person to another, stating all the particulars and the prices. It is sent by the merchant to the buyer either with the goods or by post.

Q. What is the use of the Invoice Book?

A. This book is used for keeping an account of all goods *bought on credit*. It is so called because the entries made in it are copied from the invoices usually sent along with the goods. When the goods are received, the names and addresses of the persons from whom they are bought, with a description of the goods and their prices, and also any other charges, are entered in it.

Q. If you bought the flannel and cloth before mentioned of James Brown, how would the entry appear in your Invoice Book ?

1 January, 1872.

	<i>James Brown, Leicester.</i>	Cr.	@ 1/9	Particulars			Sums Total. <hr/>
				£	s	d.	
1	By 100 yards Flannel		" 55 yards Black Cloth	8	15	0	
	" Wrapper and Packing		" 5/	13	15	0	
	Commission			0	5	0	
				1	2	0	23 17 0

In practice it is more convenient to enter the amount only with the date of the invoice, thus :—

<i>James Brown, Leicester.</i>			
1 By goods as per invoice, 1 January, 72			23 17 0

Q. What is the use of the Cash Book ?

A. In the Cash Book is kept an account of all the cash you receive and the cash you pay, and of the discount allowed by or to you ; each page is ruled with double money columns, the inner column being used for the discount and the outer for the cash.

Q. On which side of the Cash Book are the receipts entered, and on which the payments ?

A. The cash receipts are entered on the left hand side or Dr. side, and also the discounts allowed by you. Cash payments and discounts allowed to you are entered on the right hand or Cr. side. The object is to shew the balance on the account.

Q. If you receive a sum of money, to what account would you carry it, and on which side of the account would you place it ?

A. I should enter the amount on the debtor or left hand side of my Cash book, and this entry, when posted into the

Ledger, would appear then on the creditor or right hand side of my client's account.

Q. Enter the payment and receipt by you respectively of the cash for the before mentioned goods, allowing 5 per cent. discount, in your Cash Book.

Cash Received.				Cash Paid.			
		Disc. allowed.	Cash.			Cr.	Disc. allowed.
1872.	Dr.	£ s. d.	£ s. d.	1872.	1	James Brown, Leicester.	£ s. d.
1 Jan.	James Brown, Leicester.	1 3 6	22 13 6	1	Jan.	.	1 3 6

Q. What should the balance of the Cash Book always shew?

A. A balance in the trader's favour.

Q. Give a specimen of a Cash Book containing five items on each side properly posted into the other books.

A.

CASH RECEIVED.

CASH PAID.

Ledger fc.		Discnt.	Cash.	Ledger fc.			Discnt.	Cash.
1872.				1872.				
21 Jan. 1	R. Jones .	10/6	20 9 6	17 Jan. 1	W. Smith .	16/-	15 4 0	
17 „ 10	W. Smith .	10/-	10 0 0	„ 2	R. Brown .	5/6	5 10 0	
14 „ 11	Goods cash		3 10 0	„ 4	Bills pay- able, No. 2, J. Smith, Leeds .		150 0 0	
„ 15	Bills receiv- able, No. 1 discount. £100. J. Brown, Liverpool.	1/- o/o	99 0 0	14	„	Goods Cash } Purchases . }		7 10 0
„ 18	Union Bank		15 0 0	20	„ 7	Trade ex- penses :— J. Robins, Salary.		5 0 0

Q. On which side of the Cash Account must the balance, if any, always be, and why?

A. As receipts are entered on the Dr. side, and the payments on the Cr., and as money must be received before it can be paid away, the balance, if any, must be on the Dr. side, and will therefore be entered on the Cr. side when the account is balanced.

Q. The Credit side of my Cash Book is greater than the Debit—what conclusion would you draw from this circumstance?

A. That you have overdrawn your banker's account.

Q. What is a Draft or Bill, and why is it called a Draft?

A. It is a written order or request upon stamped paper, signed by the person called the drawer to whom the amount is owing, for the payment of a sum of money to the drawer or his order, at a specified time, unconditionally. When the person to whom it is addressed, called the drawee, accepts the bill by signing his name to it, he is called the acceptor. It is called a draft (draught) because the maker is said to draw upon the drawee for the amount.

Q. What is the allowance called three days' grace?

A. It is an allowance of three days for payment after the date fixed by the bill or note. It is now abolished on bills payable at sight or on presentation.

If the third day be a day of rest, it is payable the day previous, unless the third day be a Bank Holiday, when it is payable the day after.

Q. Draw out in proper form a bill for £23. 17s., dated January, 1872, at three months, for James Brown's acceptance.

A. £23. 17s.

Leicester, 1st January, 1872.

Three months after date pay to me or my order
the sum of Twenty-three pounds seventeen shillings for
value received.

To James Brown,

John Smith.

Leicester.

Here James Brown may accept by writing his name
either below John Smith, or across the bill.

Q. A merchant receives a three months bill, dated the
1st of January. On what date would he enter it as payable
in the bill book?

A. On the 4th of April, unless that day be a Sunday or
“*dies non*,” in which case it would be entered as payable on
the 3rd ; but if it be a Bank Holiday then on the 5th.

Q. What is meant by discounting a bill, honouring it,
taking it up, retiring it, indorsing it, noting it, protesting
it, paying it, and paying it away a month before maturity?

A. Discounting a bill, is giving the money for it before it
comes due, less a certain sum for interest and risk.

Honouring it, is paying it at maturity.

Taking it up, is where it is paid after maturity by one of
the other parties liable on it.

Retiring it, is taking it out of circulation before matu-
rity by giving a fresh bill at a longer date, or otherwise
settling it.

Indorsing it, is done by the holder writing his name on
the back when he parts with the bill, and this makes him
liable for the payment of it to all subsequent parties.

Noting a bill and protesting it, is where, it not being paid
on presentation, it is handed over to a notary public, who
again presents the bill, when, if not paid, he notes its non-
payment, and afterwards draws out a formal protest on

stamped paper that legal steps may be taken for recovering the amount. Only foreign bills require it.

Paying a bill, is paying it when due.

Paying it away a month before maturity, is paying it to a third person in lieu of cash a month before it becomes due.

Q. What is meant by liability on bills receivable?

A. This liability can only attach to bills receivable which are afterwards either discounted or indorsed over by the tradesman.

Q. What is the use of a Bill Book?

A. In this book is kept an account of the "Bills Receivable," *i. e.*, which you have to receive payment of, and the "Bills Payable," *i. e.*, which you have to pay, as they become due. One portion of the book is kept for bills receivable and the other for bills payable.

Q. A. accepts a bill drawn on him by B., how will the transaction appear in the respective Books?

A. A. would enter the bill in his Bill Book under the head of Bills payable, and B. would enter it in his Bill Book under the head of Bills Receivable, as shewn below.

Q. If you received a bill at three months from James Brown for the goods, how would this be entered in your Bill Book.

BILLS RECEIVABLE

When Received.	No.	From whom Received.	Amount.	Date.	Term.	When Due.	Entered in Cash Book.	On whom Drawn.	Where payable.
1872. Jan. 2.	1	James Brown. Leicester.	£ s. d. 23 17 0	1872. Jan. 1.	3 mos.	1872. April 4.	1872. *Jan. 12.	James Brown.	Leicester.

* When paid or discounted it is entered in Cash Book.

Q. If, on the contrary, you have given the bill, how would the entry appear?

BILLS PAYABLE.

	When Granted.	No.	To whom Granted or by whom Drawn.	Amount.	Date.	Term.	When Due.	Entered in Cash Book.	To whom payable.	Where payable.
1	1872. Jan. 1.	1	James Brown, Leicester.	£ s. d. 23 17 0	1872. Jan. 1.	3 mos.	April 4.	*April 4.	James Brown.	Union Bank.

* When paid it is entered in Cash Book.

Q. If a merchant desires to know how he stands with regard to a particular correspondent, to which of his books does he refer?

A. He refers to his correspondent's account in his Ledger.

Q. What is the use of the Ledger?

A. The Ledger contains an abstract of all entries made in the other books.

The entries in the Day Book, Invoice Book, Cash Book and Bill Book are collected together here, and arranged in order of their dates under the names of the various persons to whom they belong.

Q. What is meant by posting?

A. In the Ledger, a page or portion of a page, with Dr. and Cr. columns, is assigned to each person's account; the left hand column being the Dr. side, and the right hand the Cr. The amounts of Dr. entries belonging to each person are copied one by one on the Dr. side, and the amounts of Cr. entries on the Cr. side,—this is termed posting.

Q. On which side of the Ledger would the entries in the different books be posted?

A. The entries in the Day Book (being goods sold) are posted on the Dr. side. The entries in the Invoice Book (being goods bought) are posted on the Cr. side. Cash paid and bills payable are posted on the Dr. side, whilst cash received and bills receivable are posted on the Creditor.

Q. How would you post the entry in the Day Book of James Brown's purchase?

A. First write James Brown along the top of a page in the Ledger. Then below this, on the Dr. side, the date, Jan. 1st, 1872. Then "To goods," and in the column next the cash the page of the Day Book from which the entry is taken, viz., (1). Then the amount he is Dr., "£23. 17s.", in the cash column. Then write James Brown's name, and the page of the Ledger (1) in the Index, and finally mark the page of the Ledger in the margin of the Day Book opposite the entry to shew that it has been posted.

The Ledger will appear as follows:

Dr.	<i>James Brown, Leicester.</i>				Cr.
1872. Jan. 1	To Goods	1	£ 23 s. d. 23 17 0		£ s. d.

Q. What is the distinction between a prime entry and a ledger entry?

A. A prime entry is the first or original entry made of a shipment or importation of goods at the Custom House, whilst the Ledger entry is the entry of the transaction posted in the Ledger to the account of the customer.

Q. What is the proper heading of an account between an agent and his employer, and on what sides are the entries made respectively?

A. In the Agent's Ledger the account will appear as follows :—

Dr.	James Brown (Principal).	Cr.
-----	--------------------------	-----

All payments made on account of the principal will be entered on the Dr. or left hand side, whilst all receipts on his account will be entered on the Cr. or right hand side. The reverse of the entries in the Agent's Cash Book.

Q. A tradesman, A., receives from his customer, C., a bill accepted by B., for goods, and places the bill to C.'s credit. The bill is dishonoured when due. How would the account appear in A.'s Ledger ?

A.

Dr.			C.			Cr.		
1871.				1871.				
Sept.	1	To goods	20	£ s. d.	1871.			
Dec.	4	To Bill on B. dishonoured	5	50 0 0	Sept.	1	By Bill due	£ s. d.
			<hr/>	<hr/>	Dec.	31	Dec. 4 -	50 0 0
			100 0 0	<hr/>			By balance	50 0 0
			<hr/>	<hr/>				<hr/>
Dec.	31	To balance	50 0 0	<hr/>				<hr/>

Q. Explain the item in the following Ledger account :—

Dr.			James Brown.			Cr.		
1871.				1871.				
Jan.	1	To goods	1	£ s. d.	1871.			
May	31	Ditto	7	250 0 0	Feb.	1	By Cash	£ s. d.
			130 0 0	<hr/>	June	2	By Bill due	200 0 0
					,,	30	June 24 By balance	100 0 0
								80 0 0
								<hr/>
June	30	To balance	80 0 0	<hr/>				380 0 0

How is it that James Brown is credited "by balance £80" which he has not paid? In what manner is the explanation sometimes inserted in the account? What is meant by the angular ruling on the debit side?

A. James Brown has bought goods of me to the extent of £380, and paid me £300 on account thereof; the account is balanced at the end of the half year, when there is £80 owing to me, and this amount is therefore carried to debit of the fresh account with him, it having been inserted in the old account for the purpose of balancing it, which may be indicated by "Balance carried forward."

The angular ruling on the Dr. side is to exclude further entries in the vacant space caused by making the totals of each side stand opposite each other.

Q. What does the Stock Book contain?

A. An inventory of the stock in hand at the time of balancing the books.

Q. What is a stock account? State the items of which it is composed on the one side and on the other. What is represented by the balance?

A. A list of all goods kept for sale that are on hand at the time of taking stock, with the prices, is entered in the stock book at cost price. The amount of stock of a more permanent nature, such as buildings, machinery, shop furniture, &c., is also entered, and the cost. On the other side, a yearly deduction of 5 or 10 per cent. requires to be made from the original cost to allow for deterioration or wear or tear. The balance represents the then value of the stock in trade.

Q. What is an account current?

A. It is a statement of the transactions between two parties during a certain time, drawn out in Dr. and Cr. columns. On the Dr. side of the account are entered all the payments made, goods supplied, or liabilities incurred

on behalf of the person, also the commission, and the charges if any. On the Cr. side are entered all receipts of money or goods from him or on his account.

The interest for the period is then added, and the balance struck, and carried to the next account.

Q. What is an account sales ?

A. An account drawn out by a commission agent shewing the sales he has made of goods on account of another party. It contains a statement of the quantities sold and the prices, also the charges for freight, commission, &c.

Q. An account has two sides, a Dr. side and a Cr. side, say what these two sides are intended to contain.

A. On the debtor side are posted the entries in the Day Book (being goods sold on credit), cash paid and bills payable, whilst on the credit side are posted the entries in the invoice book (being goods bought on credit), cash received, and bills receivable.

Q. What is meant by keeping an account as an interest account ?

A. An interest account is where the interest on each item on both sides of the account is given and taken respectively up to the day on which the balance is struck.

Q. What is the meaning of a rest on an account stated ?

A. When large balances remain outstanding the account is usually taken with rests at the end of each half year, and interest charged on the balance ; by this means interest is paid on interest.

Q. Supposing the accounts between two firms kept as an interest account to go on for several years with annual rests, does or not this mode involve a charge on the debtor of compound interest ?

A. Yes ; as the interest each rest is added to the balance due, and so interest upon interest is thus charged in the next account.

Q. Give a specimen of an account current between A. and B. (rendered by B.), consisting of five items on each side and shewing a balance in favour of B.

<i>Dr.</i>	<i>A.—LONDON.</i>			<i>Cr.</i>
1871.				
Jan. 6	To Bill due April 9 .	1 30 0 0	1871.	By Goods . 1 50 0 0
Feb. 28	To Cash . 3	20 0 0	Feb. 1	Ditto . 3 10 5 0
Mar. 25	To Cash . 5	95 0 0	Mar. 1	Ditto . 4 80 10 0
	Discount	5 0 0	," 25	Ditto . 50 5 0
May 1	To Cash . 7	60 0 0	June 30	By Balance 19 0 0
		210 0 0		210 0 0
June 30	To Balance	19 0 0		

Q. State an account with a wholesale house and a tradesman, shewing goods sold, goods returned, and acceptances given by the tradesman, some being paid and some returned dishonoured, with expenses.

<i>Dr.</i>	<i>A.B.—OXFORD.</i>			<i>Cr.</i>
1871.				
Jan. 17	To Goods . 1	£ s. d. 20 0 0	1871.	By Cash . 1 19 0 0
," 28	," 1	50 0 0	," 28	By Discount , 1 0 0
March 31	To dishon- oured ac- ceptance.	4 50 0 0	," ,	By Bill due March 31 2 50 0 0
," ,	To expenses ,	0 12 6	April 1	By Bill due May 4 . 5 100 0 0
April 1	To goods .	100 0 0	," 7	By Goods returned . 15 0 0
		220 12 6	May 31	By Balance , 35 12 6
May 31	To Balance	35 12 6		220 12 6

Q. Give a specimen of an account current with interest calculated thereon.

Dr.	James Brown, New York, in account with John Smith, London.				Cr.
1872.		£ s. d.	1871.		£ s. d.
Feb.	28 To account of goods per "Asia," as per invoice	3 1200 0 0	Jan.	1 By balance due as per account rendered	400 0 0
	To cash for premiums on insurance at 3 per cent., and policy 80s.	4 40 0 0	April	1 By net proceeds of goods per "Manhattan," as per account sales, due June 1st	10 1500 0 0
April	1 For freight	6 60 0 0		By balance of interest account	1 15 1
June	4 To bill of exchange, due 1st July, Jones on Smith	7 300 0 0			
	To balance carried to fresh account	301 15 1			
		1901 15 1			1901 15 1
	London, 31st Dec. 1871. Errors excepted, John Smith.		Dec.	31 By balance	301 15 1

Dr.	Interest Account.				Cr.
		£ s. d.			£ s. d.
Feb.	28 £1200 from this day to 31st Dec., 306 days at 5 per cent.	54 9 10	Jan.	1 £400 from this day to 31st Dec., 365 days at 5 per cent.	20 0 0
July	1 £300 from this day to 31st Dec., 183 days at 5 percent.	7 10 5	June	1 £1500 from this day to 31st Dec., 213 days at 5 per cent.	43 15 4
Dec.	31 Balance carried to account current	1 15 1			63 15 4
		63 15 4			

Q. State in the form of an account between A. and B. the following transactions. A. receives from B. a consignment of goods of the value of £10,000 for sale upon the understanding that he shall be allowed 5 per cent. on the amount of all sales, and also his expenses. A. sells goods to the amount of £9000 on which his expenses amount to £150, and returns to B. goods of the value of £1000.

A.

Dr.	B., of New York (in account with A., of London.)			Cr.
1871.				1871.
Feb. 1	To Goods returned by "Europe," as per Invoice.	3	£1000	Jan. 1 By Goods per "Asia," as per Invoice 1 £10,000
	To Commission on Sales, £9000 at 5 per cent. -		450	
	To Expenses on ditto - -		150	
	To Bill of Ex- change, due 4th March, for ba- lance - -		8400	
			£10,000	£10,000

If freight or insurance were paid either way by A. this must be added, and also an interest account if the sales extend over any period.

Q. A. receives (on account of B.) rents of the following amounts, £20, £35, £31, £14; thereout he pays himself an advance of 10 per cent. he had previously made; he then pays himself a commission of 4 per cent. on rents received, and pays the balance to B. Draw a Dr. and Cr. account between A. and B. shewing these transactions.

A. A. would render his account thus :—

	Dr.	B.	Cr.
1871.		<i>£ s. d.</i>	1871.
Jan. 1	To Advance of 10 per cent. - -	10 0 0	Mar. 25 By Rent received of — - -
Mar. 25	„ Commission on Rents received	4 0 0	„ ditto of — — — 35 0 0
Mar. 30	„ Cheque for Balance - - -	86 0 0	„ ditto of — — — 31 0 0
		<u>£100 0 0</u>	„ ditto of — — — 14 0 0
			<u>£100 0 0</u>

Q. State an account of £4000 cash received and invested in £3 per cent. Consols at 92½ less brokerage, stock afterwards sold in two equal sums, one at 90 and the other at 89½ less brokerage.

A.

	Dr.	John Brown, Liverpool.	Cr.
1871.		<i>£ s. d.</i>	1871.
Apr. 1	To £4330. 3s. 6d. Consols @ 92½	3994 11 9	Apr. 1 By Cash - - -
	To Brokerage - -	5 8 3	4000 0 0
„ 20	To „ on Sale of £2165. 1s. 9d. Consols - - -	2 14 6	„ 20 By Sale of £2165. 1s. 9d. Consols @ 90 - - -
„ 25	To ditto - - -	2 14 6	„ 25 By sale of Ditto, @ 89½ - - -
	To balance - - -	3880 17 6	1948 11 6
		<u>7886 6 6</u>	1937 15 0
			<u>7886 6 6</u>
			By Balance - 3880 17 6

Q. A. and B. (partners) have agreed to dissolve their partnership, and wind up their partnership affairs. Each

partner brought in £10,000 capital at the commencement of their partnership. It was agreed that they should share profits and bear losses in equal proportions, also that interest at £5 per cent. per annum on any capital withdrawn should be paid by the partner withdrawing it; each received his full share of profits. A. withdrew £5,000 of his capital one year before dissolution of partnership. B. had not drawn out any part of his capital. The net assets after paying all the debts to third parties on the dissolution of the partnership amounted to £10,000. State the final account between the partners, and say what has to be done so that the loss may be equally borne?

A. A. must account for £250, being the year's interest on the capital withdrawn by him, which will be added to the assets, and the loss of £4,750 must be divided between the partners, and deducted from their respective shares of the capital. A. will therefore be entitled to £2,375, and B. to £7,625 of the £10,000.

Q. A. is steward to B., the lord of the manor; how will his payments and receipts appear in the books.

A. In the Cash Book all receipts will be entered to the debit of A., and all payments by him to the credit; and in the Ledger the receipts will be posted to the credit of B., and the payments to his debit: thus

Dr.		B., Lord of Manor of ——			Cr.	
1871.		£ s. d.	1871.		£ s. d.	
Dec.	1 To expenses of Court and dinner, &c.	10 5 0 0	Jany.	1 By Fine re- ceived of J. Brown.	100 0 0	
	2 To Cash	11 100 0 0	March	2 By ditto of W. Smith	50 0 0	
	To Balance	55 0 0	Dec.	31 By quit rents received.	10 0 0	
		160 0 0			160 0 0	
			Dec.	31 By Balance	55 0 0	

Q. If a merchant desires to know how he stands with reference to the whole of his transactions at any given time, how does he proceed?

A. He must prepare a balance sheet.

Q. What is the object of balancing a set of books of a merchant?

A. The object is to ascertain the state of his affairs and see how much is owing to or by him, the amount of cash, bills and stock in hand, and what is the balance, if any, in his favour. In double entry it also tests whether the accounts have been correctly kept.

Q. What does a Balance Sheet consist of, how is it formed, and what does it shew?

A. On the debtor side of it appears the amounts owing by you as ascertained by the *Ledger*, deducting probable discount, and the bills owing by you as ascertained from the Bill Book.

On the other side:

The amount on hand of goods for sale as per Stock Book.

The value of shop furniture or other permanent stock as per Stock Book.

The amount of accounts owing to you as per Ledger, excluding bad debts and deducting probable discount.

The amount of bills owing to you as per Bill Book.

The amount of cash in hand and in bank.

The difference between the two sides will shew the amount of your capital at the time of balancing; this difference is filled in on the Dr. side as "Balance with capital," and the account is balanced.

Q. What is the nature of a Profit and Loss account, and what items should it contain?

A. The object of a profit and loss account is to shew whether the trader has been a loser or gainer during the year. For this purpose enter on the Dr. side of the account the amount of your capital on 1st January preceding,

(taken from preceding balance sheet), and interest at 5 per cent. thereon, and on the credit side enter the amount of your capital, 31st December, as taken from your present balance sheet, and the amount of cash drawn by you from the business during the year, as shewn by the Ledger.

If the credit side exceeds the debit, the difference is the amount of nett profit for the year ; if the debit exceeds the credit, the difference is the nett loss.

Q. What is the difference between nett profit and loss and gross profit and loss ?

A. Nett profit and loss is the actual profit or loss on the business after deducting all expences. Gross profit and loss is the profit and loss without deducting trade expences and bad debts.

Q. Give a statement of particulars that must be brought into comparative view by a farmer carrying on a ready money business to ascertain the result of transactions for a given period ; shew how this statement, which would be in the form of profit and loss account, may be converted into a balance sheet.

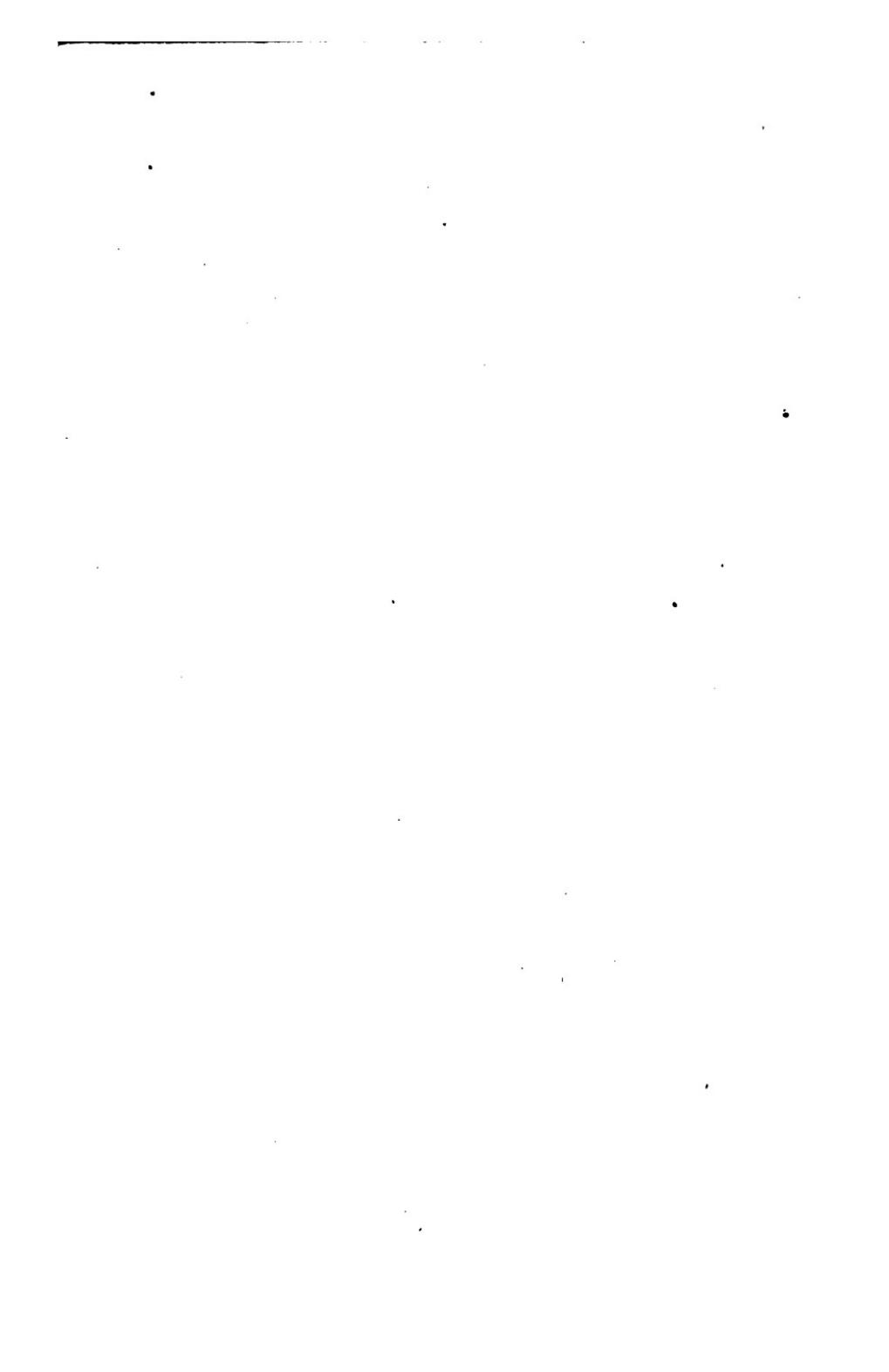
A. On the debtor side should be entered the balance due to capital at the commencement, with interest at £5 per cent.

On the credit side should be entered his present valuation of stock, crops and tillages, &c., balance at bankers, cash in hand, and amount drawn from business during the period.

The balance of the account will shew the profit or loss for the period.

The above account may be converted into a balance sheet by omitting the items on the Dr. side, and the amount drawn from business on the Cr. side ; the amount of the credit side will then shew the balance with capital which should be entered on the Dr. side.

THE END.



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